THE JOURNAL
OF
POLITICAL ECONOMY

VOLUME 24 *October 1916* NUMBER 8

THE MOVEMENT FOR TAX REFORM IN VIRGINIA

In the last years of the nineteenth century in Virginia the annual state revenue did not exceed $4,000,000, and the amount raised through taxation by the local governments was also small. Taxes per capita were therefore light. It is true that local rates sometimes were high, but low assessments usually neutralized them except for the very scrupulous and the very helpless. The taxation of intangible property, incomes, franchises, and licenses was poorly systematized and worse administered. The chief burden, such as it was, fell on tangible property, and was borne by the landowners.

Discontent among the farmers with such a system is readily understood by those who remember the depressed condition of agriculture in the nineties. Particularly were they bitter against the railroads, which were commonly supposed to be evading their taxes by underassessment and other still less creditable methods. Other corporations in the state twenty years ago were relatively few and weak, and the "railroads" bore the brunt of the farmers' hostility. Sectional inequalities and other forms of injustice were known to exist, but they were given little thought in comparison with the inequalities between the railroad and the landowner.

It is needless to say that in a state so largely rural as Virginia the sympathy of the legislature was with the farmers. But

definite action was postponed in this and other important fields for the reason that the state constitution was in need of general revision, and both voters and legislators temporized while expecting the assembling of a constitutional convention.

It was not until 1902, however, that a new constitution was adopted. That instrument made no revolutionary change in the tax system. It did something very much better, in that it gave to the legislature almost complete freedom to revise and readjust the revenue laws of the state in such manner as experience might show to be wise.

The convention met the complaints with regard to railway taxation by providing that for ten years the physical properties of public-service corporations should be assessed at market value by the State Corporation Commission for taxation at rates uniform with those imposed on other property by the state and its civil subdivisions, and that in addition railways should pay to the state a franchise tax of 1 per cent of their gross receipts. At the end of a decade the legislature was free to retain this plan of taxation or to substitute for it any other that it might prefer. Under the new plan the growth of public revenues was great, but the lion's share of the increase went to the state through the franchise tax and to three or four cities where the head offices of the railways were situated and which, on that ground, were taken to be the *situs* for taxation of all rolling stock. Needless to say, therefore, discontent among the farmers was not quieted. But to some extent it did change the direction of its expression, and criticism of the Corporation Commission for its low assessments was widespread and bitter. This continued agitation in regard to taxing railroads brought on in successive sessions of the General Assembly frequent discussions of the need for a fundamental reform of the whole fiscal system.

To relieve the injustice arising from the unequal contributions made by localities to the state's revenue the Constitutional Convention took no direct action. But it recognized that reform was needed, and the prevailing opinion as to its proper direction is seen in the provision that "nothing in this Constitution shall prevent the General Assembly . . . . from segregating for the purposes of taxation the several kinds or classes of property, so as to specify

and determine upon what subjects state taxes, and upon what subjects local taxes, may be levied." Such a separation of revenue sources had been first discussed in connection with taxing railroads. And although it soon developed that the assignment of all corporation taxes to the state would not be expedient, yet the discussion of it brought out the attractive features of a system that would enable the state to remove all its taxes upon local property and raise its revenue entirely from other sources. Just what these other sources should be the convention could not determine, and for that reason it passed the problem on to the General Assembly. Indeed, the matter was not considered urgent, for state taxes were small and sectional inequalities, though irritating, were not considered burdensome. The convention provided, therefore, that the General Assembly should wait for ten years before enacting the segregation suggested.

Without doubt this paragraph in the constitution had no little influence in cultivating a popular belief that "tax reform" and "segregation" are synonymous terms. But a more potent reason for wanting segregation lay in the swift growth of city expenditures, which forced a marked increase in the assessment of city property. This added materially to the inequalities that already existed among the localities, and the cities' share of the state taxes began to weigh heavily. The grievance thus caused was aggravated by the way in which the revenues were spent; for two-sevenths of the property tax, appropriated for the public schools, was distributed on the basis of school population, while another seventh went as pensions to Confederate veterans. Since the state also paid all criminal charges, it could easily happen that a locality, with no regard whatever to its paying ability, would receive from the state treasury a great deal more than it contributed to it. Under this system nearly three-fourths of the hundred counties were beneficiaries.

In order to prepare for the readjustment forecast by the convention, the General Assembly created a special commission in 1910 with instructions to report on conditions and to recommend the proper measures to be taken at the next regular session two years later. It was an unpaid ex officio commission, consisting of the

governor, the lieutenant-governor, the speaker of the house, and the chairmen of the finance committees of the house and the senate. A meager appropriation was made to employ a secretary, and upon him devolved nearly all the work that was done. Fortunately the secretary was an active and able young man, and he compiled a report on prevailing conditions and practices that was luminous and interesting, the first systematic treatise on taxation in the state that had ever been published. His work was completed, however, so short a time before the meeting of the legislature that neither the members nor the press could digest its contents before the session opened.

The recommendations of the commission, based upon its secretary's report, came to the General Assembly as a complete surprise. The act creating the commission carried specific instructions to report in detail on the separation of revenue sources and to outline a method of accomplishing it. In other words, the legislature, supposing the time to be ripe for the segregation suggested by the Constitutional Convention, had really expected the commission to limit its activities to working out a fair and practicable apportionment of sources between the state and the localities, and to draw a bill making it effective. Instead of meeting this expectation the commission presented no feasible plan of separation, but on the contrary recommended a permanent state tax commission with wide powers. Its report explained in great detail the difficulties in the way of "segregation"—the same difficulties, it may be remarked, that had been encountered by the Constitutional Convention.

But while the commission presented no plan of separation, it earnestly commended it as a policy. "We are convinced," said the report, "that . . . . separation is a wise policy. It conforms to natural conditions, places property where it can best be taxed, simplifies regulation, promotes harmony in taxation, and has in many cases been the means of a substantial reduction in tax rates." In view of these merits the report recommended only the postponement and not the abandonment of the plan.

The General Assembly was more impressed by the commission's approval of separation than by its description of the difficulties in the way of adopting it. Furthermore, the great majority of the

members were vehemently opposed to centralizing tax administration through the creation of a permanent commission. Many of them, of course, knew little about the principles of taxation, and very few indeed had paid any attention to the methods and practices recently tried out in other states. Sentiment has always been strong in Virginia against centralizing administrative powers. Among the legislators the idea was widespread that the power to assess property is about equivalent to the power to tax it, and that bestowing this power on a permanent commission would work a revolution in the state government, endanger the safety of property, and deeply shock the sentiment for self-government among the voters. It is not too much to say that at that time not one in six of the members of the General Assembly had ever heard of a tax commission empowered to discharge the duties assigned to it by the report. They believed that the voters expected "segregation," and even if they had been convinced that the creation of a permanent commission was desirable, many would have feared to oppose public sentiment.

Needless to say, the bill offered by the commission was defeated. In many details, indeed it was defective enough to justify defeat. It was around these details, rather than the general principles embodied, that the discussion chiefly centered; and the result of the debates was to convince the majority that the defects in this particular bill were defects inherent in any tax-commission plan whatsoever, and that advocacy of such a plan would be likely to retire any man from public life in the state.

During the two years that elapsed before the next session of the legislature, a surprising lack of interest in taxation was shown. There were occasional complaints from owners of intangible property, the farmers still grumbled at the low railway assessments and the distribution of the rolling-stock tax, and now and then a letter or a contributed article appeared in the press. But as far as the present writer has been able to discover, not a single paper in the state urged, or even suggested, any definite policy of reform. Not a single association or organization or political meeting furnished opportunity for any systematic discussion, or did more than express an occasional vague complaint of some specific abuse

in the present system. It is true that the former speaker of the House of Delegates made an address before the State Bar Association explaining his opposition to segregation, but beyond conventionally polite notices the press paid little attention to it. No attempt, save one by the state auditor, to be mentioned presently, was made from any direction to inform the voters, to guide their thought, or to ascertain and publish such views as might possibly have been formed.

This almost unbroken silence is sufficient evidence that few people were thinking about tax reform, and that there was no public opinion strongly determined as to the direction that reform should take. The state was enjoying abundant revenue to meet the appropriations that had been made, and each locality had the privilege of fixing its own assessments and tax rates. The chief sufferers from prevailing conditions were voiceless and without influence. It was tacitly taken for granted, however, that the legislature in 1914 would accomplish what the previous session had failed in, and enact some different system. It was almost equally taken for granted that the new system would be segregation. There was no excitement and little interest manifest anywhere.

In the summer of 1913 the auditor of public accounts, an official of very great experience and ability, printed a pamphlet containing a scheme for the separation of revenue sources. The gist of it was the assignment to the state of the whole tax on banks, insurance companies, and public-service corporations, and to the localities of the whole direct tax on real estate and the personal property of individuals. By this assignment and by leaving the income tax, fees, charges, and the enormous group of licenses or occupation taxes untouched, he showed that the state's revenue would be adequate to meet its expenditures as they then were. A normal growth of expenditures he thought would be met by the normally increasing yield of the sources; while any emergency, he suggested, might be met by a very small state levy prorated among the localities. The auditor's pamphlet was particularly interesting in that it showed that the decade's growth of corporations in Virginia had been sufficient to make segregation a possibility.

But no sooner was a definite plan thus actually set forth than it aroused a feeling of anxiety. In some localities there was little or no corporate property to tax, while others had long been dependent on their revenues from this source. In some counties there were no railroads; others were traversed by four or five important lines. Some counties collected no local tax on banks, while some of the localities felt that they would face ruin if this source of revenue were withdrawn from them. It was evident that a further consideration of the subject was needed before segregation should be enacted.

Realizing the gravity of the situation, the Richmond Chamber of Commerce invited to a conference the local and state officials, certain interested citizens, and a few experts in taxation from other states. This conference met after the session of the General Assembly had begun. The result of its deliberations was a petition to the legislature to postpone action at the regular session, to create a special commission with adequate funds to make a thorough investigation, and to act upon the report of that commission at a special session a year later. The petition was supported by the Farmers' Union and other forceful influences.

Accordingly the General Assembly created a special commission of ten, three from the senate, four from the house, and three citizens to be appointed by the governor; and it appropriated enough money for the commission's use. But unfortunately it allowed only about six months for the work to be completed.

The defects in the Virginia system pointed out in the commission's report were much the same as those prevailing in all states that still retain the general property tax. Only the more important will be touched on here.

Real estate was almost universally undervalued. The average assessment of urban real estate was found to be 53.1 per cent of its true value; of rural real estate it was only 33.5 per cent. Taking the state as a whole, the assessed value of all lands, lots, and improvements was $550,421,094; the commission showed the selling value to be $1,427,862,395. The taxes collected by the state on this value amounted to $1,927, 395; those collected by the localities were $6,006,352. In other words, the combined rate of all taxes was $1.49 on the assessed value, and only 58 cents on the true

value of real estate. On the whole, therefore, taxes were low, and the majority of the landowners in the state had no valid cause of complaint. But there was a minority that labored under a very real grievance; for, by reason of unequal assessments, a few were paying far more, while some paid much less, than the average. Fourteen counties showed an assessment of less than 25 per cent, and nine of more than 50 per cent, of true value. In the cities assessments varied between 45 per cent in Winchester and 76.5 per cent in Fredericksburg. In the country small properties were assessed on the average 20 per cent higher than large properties in the same locality; in the cities there was a similar discrepancy, though it was not so great. Now, the state tax was uniform on the assessed value of all taxable property at the rate of 35 cents on the $100. As a result it was shown that for every dollar paid to the state by the owner of a small property in a certain county with a high assessment, there was a payment of only four cents by the owner of a large estate in another county with a low assessment. This particular discrimination, it is true, was more burdensome in appearance than in reality, because undervaluation prevailed everywhere, and the amount actually collected by the state was not great even from the most highly assessed lands. But with local taxes it was harder to bear, since the rate of these was never less than twice as high, and was sometimes eight times as high, as the state rate. The higher the local rate, the greater was the real hardship imposed by inequalities. Nor was there any provision whatsoever in the state for adjusting unequal assessments. Even in case of actual overvaluation the only recourse of an aggrieved owner was a costly and tedious appeal to the courts.

One class of real estate, namely mines and mineral lands, was peculiarly exposed to discrimination. For this class was assessed by the local assessor jointly with an expert appointed by the State Corporation Commission. Gross undervaluation was thus prevented on this class, and since it was subjected to the same rates of taxation as other property, its taxes were much heavier. The discrimination was notorious, and, indeed, in some localities it had been used among the farmers as an argument to get votes for bond issues. In one county the coal companies paid about 83 per

cent of all the taxes, for their property was assessed at approximately full value, while other real estate was assessed at less than 30 per cent. This county had issued over a million dollars of road bonds in the knowledge that the interest charges would have slight effect on the taxes of the average citizen.

Railways, street railways, power companies, and other corporations were exposed to the same discrimination as the owners of mineral lands, for they were assessed by the Corporation Commission without regard to any valuation made of other property by local assessors. It was widely believed, however, that the Corporation Commission outdid the local assessors in undervaluation particularly in the case of railways. The ground of this belief was quite obvious; for the Corporation Commission's assessment omitted the value of the railway's franchise, while the average citizen thought of a road's value as a whole, including the "franchise," the "corporate excess," the value as a "going concern." Thus in 1913 the stock and bond value of all steam roads in the state was $362,595,107. They were assessed in that year at only $114,814,012. Furthermore, their capitalized net earnings amounted to $330,471,843; while the reported cost of construction was $386,494,935. In view of these figures it is not unnatural that many believed the railway assessment to be even lower than that of ordinary real estate. But such a belief ignored the additional tax which was put upon the railway's franchise, and which amounted to 1 per cent of the gross receipts imputed to operation in Virginia. Taking this franchise tax together with all others, it was found that interstate roads were paying 62.3 cents, and intrastate roads $1, on the $100 of estimated true value. In other words, the railway taxes were actually higher than those on real estate in private ownership.

But although this common cause of complaint was found to be untenable, there were four outstanding defects in the Virginia system of railway taxation. (1) The distribution of the proceeds was unequal as between the state and the localities, since the state received the whole of the franchise tax, and the localities could tax only the physical properties assessed without regard to the "corporate excess." (2) The double basis of taxation was of doubtful

legality, and the whole system appeared to exist only through the toleration of the roads. (3) The method of estimating gross receipts was unfair to Virginia. This method was to take the average gross receipts per mile of an entire system and multiply them by the mileage within the state, whereas on many roads the real Virginia earnings were greater than the average. The operating reports of all interstate roads showed that while only 16.05 per cent of their lines lay within the state, they derived from it 21.42 per cent of their gross earnings, and 24.3 per cent of their net earnings. (4) The system worked great inequality among the roads. There were eighteen interstate roads, and the sum of all their taxes gave an average rate of 62.3 cents on the $100 of their stock and bond value. But the rate on individual roads varied between 38 cents on three of them and more than $1.50 on three others. The inequalities were found to be still greater, when the taxes paid were compared with either gross earnings or net earnings.

These defects in railway taxation illustrate the unsatisfactory operation of the taxes on all other public-service companies. Requirements of space prevent their being taken up here in detail.

Turning to intangible property, the special commission showed that the same abuses existed in Virginia that had been exhibited in many other states. All such property, regardless of its class, character, or productiveness, was taxable on its market value at the same rate as real estate. The only exceptions were United States and Virginia state bonds, bank deposits, and the shares of Virginia corporations. The franchise tax paid by corporations exempted their shares of stock, and a statute of 1914 arbitrarily reduced the tax on deposits to 20 cents on the $100. Since the average tax throughout the state on other intangibles was approximately $1\frac{1}{2}$ per cent of market value, while the rate of interest on loans was limited by law to 6 per cent, taxes took a fourth of the maximum lawful income from ordinary investments. This, moreover, was in addition to the state tax on incomes. In the case of securities bearing a low rate of interest or in the case of high local tax rates conditions were worse. Naturally, Virginia offered a poor market for securities, and even her own municipalities were obliged to sell most of their bond issues outside of the state. Natu-

rally, also, concealment and evasion were common. The helpless, the very timid, and the very conscientious paid their taxes. All others followed the practice usual elsewhere, and hid their property. There was no way provided to make a proper assessment. The citizen was required to list his belongings on oath, and the local assessor had no means of testing his veracity. In 1914 the total amount of intangibles listed for taxation was $157,138,100. The special commission adduced evidence to show that this sum was absurdly small. It was nearly equaled by the bank deposits alone; it was less than two-thirds of the capital in manufacturing; and it was only about twice as great as the value of the mortgages or deeds of trust recorded in one of the cities.

Since evasion and collusion were the only means of "equalizing" the tax on intangibles with that on underassessed real estate, bank stock was exposed to a peculiarly heavy burden. The shares of a bank were assessed at the value of its capital, surplus, and undivided profits. The taxes on them were paid by the bank and charged to the owners, so that concealment was impossible. The rates for state and locality were the same as on other property; that is, the average was $1.49 on the $100. The chief complaint against the system came from the bankers, who asserted that taxation bore more heavily upon bank stock than upon any other class of property. In many localities this was true, for bank stock and securities held by fiduciaries were very nearly the only intangibles the assessors could find. But the extra burden was more irritating than oppressive, as was shown by the fact that in recent years banking had grown more rapidly and was more generally prosperous than any other business in the state. A more serious defect was the inequality among the banks themselves that was caused partly by the difference in local rates, and still more by loose enforcement. Some localities levied on bank stock no taxes whatever. Others allowed an arbitrary reduction in the rate. Discrepancies in collections indicated that in not a few cases the value of bank stock was assessed at one figure for the state, at another for the county, and at still a third for the town. All this though grossly irregular and actually unlawful, was tolerated by local sentiment on the ground that under a strict enforcement of the law, the banks would

suffer an unjust discrimination. But this "collusion for justice" was far from general; therefore the taxes actually paid by banks varied between a nominal amount and nearly 4 per cent of the book value of their stock. Sometimes wide variations of practice occurred in contiguous localities. Thus the tax in Newport News and in Portsmouth was more than 50 per cent higher than in the adjoining city of Norfolk. Botetourt County levied no tax on banks, while in neighboring counties bank stock was taxed at 2 or 3 per cent of its value. The effect of such inequalities on the competing power of the banks is too obvious to require comment.

Perhaps the most confusing feature of Virginia taxation was the system of "licenses," which filled several scores of pages in the Code. The special commission said,

> There has never been any investigation of the effect of these taxes on the particular industries that bear them, nor on general business conditions in the state. From time to time the representatives of some line of business have made it clear to the General Assembly that they were overtaxed, and have had their own payments reduced without regard to the effect such reduction might have on other interlocked lines of business. At other times the tax has been raised on various forms of enterprise, apparently for no particular reason except that the money was needed, and it was believed that the increase would be paid without too much unpleasant clamor. Thus special rates have been fixed, raised and lowered with no broad underlying policy, with no effort to adjust them into a regulated system, with no regard to their general industrial influence, and with no possibility of knowing whether they approached equality in distributing the burden of taxation. At present this whole group of taxes impresses us as being in a condition of chaos.

The state collected $1,330,000, or about 16 per cent of its revenues from licenses. Moreover, many localities raised money from licenses at widely varying rates, sometimes in lieu of a property tax, sometimes in addition to it. "A proper and reasonable readjustment of them," reported the special commission, "would require watching their operation for several years and far more efficient methods of enforcing them than those now prevailing."

Such were the chief defects pointed out by the special commission. It explained their causes, indicated the lines of safe reform, and drafted bills for their remedy. By a majority of seven to three it recommended a state tax commission to supervise all assessments

and ascertain the proper readjustment of licenses, a much lower and a uniform rate on intangibles, the taxation of a railroad's franchise and operative property as an entity, a uniform tax on bank stock, and many other changes. The minority recommended the segregation to the localities of the whole tax on real estate and tangible personal property. In return the state alone was to tax intangibles—at a rate of 1 per cent ad valorem—insurance companies on their premium income, and the rolling stock of railways. The minority further recommended the creation of an unpaid ex officio advisory tax board, consisting of the governor, the auditor and the chairman of the Corporation Commission.

When the legislature met in special session in January, 1915, the sentiment was still overwhelming in favor of separating the sources of state and local revenues. It found a warm and active advocate in the governor, whose influence was greater than that of any of his predecessors since the days of Reconstruction. He had been nominated and elected without opposition, and he had the implicit confidence of all classes in the state regardless of party. One of the most successful, as he was perhaps the greatest of the landowners in Virginia, he was looked upon by the farmers as peculiarly their representative. At the same time his uprightness, his good business judgment, and his sense of justice made him equally acceptable to other interests. When to these qualities are added an impressive and agreeable presence together with the culture and hospitable habits associated with a gentleman of the old school, it is natural that his opinion should carry great weight with the legislature and throughout the state. After a careful study of the special commission's report, he retained his previous conviction that "segregation" was the proper system to adopt, and his conclusion was decisive. While there were doubtless many considerations that contributed to shape his opinion, there were two that seem to have been crucial. The first was a belief that a state tax commission would be ineffective, unless it were given powers that would make it a dangerous and costly political machine. The second was a belief that segregation would not only put an end to questions of sectional inequality but that it would also adequately promote local equalization of assessments. It may be added that

these were likewise the considerations of chief weight with certain thoughtful members of the General Assembly who agreed with the governor. Other members, frankly ignorant of the merits of the question, preferred the system that seemed to smack of "self-government"; while not a few were prepared as always to add their votes to what they considered the more popular side. On the whole the principle of segregation was adopted by approximately two to one.

It became evident, however, in the course of the debates that complete separation of sources was impossible. Therefore a sort of patchwork system pointing strongly to segregation was finally adopted. Its main features were as follows.

The state tax on real estate and tangible personal property both of individuals and of corporations was abolished, with the exception of 10 cents on the $100 which was continued for the support of the schools. The retention of this school tax was said to be temporary and was to be abandoned as soon as the yield from other sources had been proved adequate. It is to be noted that no provision whatever was made to equalize the assessments of real estate made by the Corporation Commission and those made on private property by local assessors. Mineral lands and the property of corporations remained exposed to the discrimination pointed out by the special commission.

The state tax on intangible property was raised to 65 cents as a partial compensation for the loss of the real estate tax. At the same time the local tax on such property was limited to 30 cents. This would give a uniform rate of 95 cents throughout the state. The local tax on municipal bonds was abolished, and the state rate fixed at 35 cents. The rate of 20 cents on deposits was continued. It was maintained by its advocates that the lower rate on intangibles would greatly increase the revenue by reducing evasion; but the amount of reduction soon proved insufficient for that purpose.

The state income-tax exemption was reduced from $2,000 to $1,200 for single persons, but the allowance of an exemption of $600 for a wife and of $200 for each dependent child kept the average total exemption about what it had been.

Most of the numerous and vexatious fees and taxes on insurance companies were combined into a single premium receipts tax, and the yield of it assigned to the state.

The franchise tax on railways and canal companies was raised from 1 to $1\frac{1}{8}$ per cent of gross receipts. All local taxes on railway rolling stock were prohibited, and the state tax on it was arbitrarily fixed at $1.60 on the $100—a rate materially higher than the average of the rates prevailing for other kinds of tangible property.

The "license" tax on express companies was put at $1\frac{1}{4}$ per cent of gross receipts; that on steamboat companies at $1\frac{1}{8}$ per cent; on freight car companies at 4 per cent; while sleeping- and dining-car companies were taxed $3 on the mile of track over which they operated.

The state tax on bank stock was retained at 35 cents on the $100 and the tax levied by localities was limited to $1.15. No owner could make deduction from the value of his bank stock or any other property by reason of his indebtedness. Each bank, banking association, trust and security company was required to furnish to the assessor in its own locality a list of the names and residences of its shareholders and to pay as before the taxes assessed against them. It was left in doubt whether the tax was payable in the locality where the shareholder resided or in that where the bank was situated. Since the act fixed only the maximum local tax it did not establish uniformity among the banks, but it did protect them against the exorbitant rates prevailing in localities with low assessments. Each bank was permitted, if it first secured the consent of the local government, to deduct from the book value of its stock the value of local municipal bonds held by it. The amount of evasion thus rendered possible does not seem to have occurred to the General Assembly.

The merchant's license, which had been $3 on the $1,000 of all purchases between $2,000 and $50,000, was reduced to $2. On purchases over $100,000 it was left as it had been at $1. No distinction was made between wholesale and retail merchants, except that the lower rate on large purchases was justified on the ground that they indicated a wholesale business. The local taxes on merchants were

left untouched. Few other changes of any consequence were made in the system of "licenses."

The advocates of segregation believed that it would automatically equalize taxes. Very consistently, therefore, they did little to strengthen the enforcement of the law. Three new agencies were, indeed, created, but without any controlling or co-ordinating power.

The first of these was an Advisory Board on taxation, composed of the governor, the auditor. and the chairman of the Corporation Commission. The duties of this board were: to collect information and make recommendations to the General Assembly, and "to exercise general advisory powers" over assessments. It was authorized to investigate at any time the assessment and collection of taxes in any locality, and when an assessment was found unjust or unreasonable to "recommend" its correction.

In the second place, there was created for each county and city a local board of review of assessments, composed of three citizens appointed by the judge of circuit or corporation court. It was to sit for not less than two nor more than thirty days a year at such dates as it deemed necessary. This local board was given almost unlimited power to change the assessment rolls at its pleasure. It was to review the reports of merchants' purchases and the annual returns of intangible property and income; to order omitted property to be entered on the rolls and to correct erroneous entries; to hear and determine the complaints of all taxpayers, county supervisors, city councils or their attorney; and it was authorized upon its own motion or on the motion of any governing board or of "any five citizens" to raise or lower any assessment which it deemed erroneous. It was given unlimited authority to summon and question on oath and under heavy penalty taxpayers or their agents "or any other person having information" with regard to incomes, the ownership and value of property, and the purchases of merchants.

In the third place, the General Assembly extended the powers of "examiners of records." These officials, peculiar to Virginia, were appointed by the circuit or corporation judge to ascertain from state and federal records the value of the property of decedents with

a view to collecting the collateral inheritance tax, income tax, or any intangible property tax evaded by the owner during his life. They were now directed to scrutinize the affairs of living persons as well as decedents, and were empowered to summon before the board of review and examine on oath and under penalty any person whatever believed to have knowledge of the ownership of intangible property, of incomes, or of the business of merchants. The examiner's remuneration was fixed at a certain percentage of his additions to the tax roll!

Such were the main features of the work of the special session. It is needless to say that the hopes of its advocates were not realized.

The assessment of real estate and other tangible property made in the following spring showed little or no improvement over former assessments. Although there was an average increase of about 17 per cent over the assessment made five years before, it was very unevenly distributed, and was usually less than the actual increase in market value. Some local boards of review tore holes in the work of the assessors, others gave it a perfunctory approval. The work of the examiners of records was peculiarly disconcerting. Some of them made no effort whatever to detect evasions; others limited their reports to the current year; some confined their attention to a few tax-dodgers of great wealth, by the listing of whose property for back taxes through many years their own remuneration would be multiplied; while a few made searching investigations of business and property that greatly increased the burden in their districts. The resulting inequalities were appalling, and there was no power anywhere to control them. The Advisory Board "advised" the examiners and boards of review, but the "advice" carried little weight with most of them. The combined effect of the lower rate and the examiners' efforts was to add less than $30,000,000 to the intangibles listed and less than $2,000,000 to the taxable incomes. By far the greater part of these additions came from two or three localities. The receipts from license taxes were equally disappointing, and fell short of the estimates prepared by the advocates of the new system. When the General Assembly met in January, 1916, the auditor reported that the state faced a deficit in the following year of at least a million dollars.

It was quite evident that "segregation" as a self-enforcing system had broken down. The prediction was disproven that "local pride would create a generous rivalry among the counties for the attainment of the most equitable and efficient tax system."

The General Assembly met the need of more revenue by raising the railway franchise tax to 1¼ per cent of gross receipts and by enacting a very low direct-inheritance tax. These, together with the stricter collection of the tax on intangibles, it was believed, would cover the prospective deficit.

Far more significant than rate changes was a change in administration. The word "advisory" was omitted from the title of the State Tax Board, and it was given wide powers. It was authorized to select "such assistants as it may deem necessary"; to instruct and advise boards of review and all other tax officials, both elective and appointive, to investigate their conduct and report them for cause to the court for removal from office; and it was directed to investigate assessments in localities, and when they were found unreasonable or unjust to institute proceedings to have them corrected. Perhaps the most important of its new powers lay in the transfer to it of the appointment and removal of examiners of records. The duties of the examiners themselves and of the local boards of review were revised and made more explicit and mandatory, and their powers were correspondingly extended.

The dominating motive for the administrative change was the desire to unearth concealed intangible property and incomes; and it is difficult to imagine how the power of the officials can now be any further increased. The history of similar efforts in other states, however, hardly justifies the hope that even with these powers they can prevent wholesale evasions so long as the tax rates remain what they are.

The most hopeful feature of the situation lies in the fact that, in spite of local jealousy, there is now a strong central state board. And though this board is itself exofficio, it is authorized and expected to appoint expert and well-paid assistants who will have the power to enforce equal justice. A few years of experience will without doubt find it shifting the main emphasis of its efforts toward securing a genuine equalization of the tax burden.

THOMAS WALKER PAGE

UNIVERSITY OF VIRGINIA